

AUDITOR - GENERAL
SOUTH AFRICA

02 DEC 2015



**BUFFALO CITY METROPOLITAN ECONOMIC ENTITY
AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015**

I am responsible for the preparation of these Annual Financial Statements which are set out herewith, in terms of Section 126(1) of the Municipal Finance Management Act (56 of 2003) and which I have signed on behalf of the Metropolitan Municipality.

I certify that the salaries, allowances and benefits of Councillors are disclosed within these Annual Financial Statements and are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (20 of 1998) and the Minister for Corporate Governance and Traditional Affairs determination in accordance with this Act except where identified as irregular expenditure in the Annual Financial Statements.



Mr. N. Ncunzana
Acting City Manager

02/12/2015
Date

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

General Information

Legal Form of Entity	Municipality
Nature of Business and Principal Activities	Local Government
Grading of Local Authority	Grade 6 Municipality
Acting Accounting Officer	Mr. N. Ncunzana
Chief Financial Officer	Mr. V Pillay
Jurisdiction	The demarcation board has determined that Buffalo City Metropolitan Economic entity (BUF) includes the towns of East London, Bhisho, King Williams Town, Berlin as well as the townships of Mdantsane, Gomo, Zwelitsha, Dimbaza, Phakamisa, Ndevana, Ilitha, Ginsberg and the surrounding rural areas.
Business address	Trust Centre Oxford Street East London 5201
Postal address	PO Box 134 East London 5200
Bankers	Absa Bank / Standard Bank
Auditors	Auditor General of South Africa
Members of Audit Committee	Mr. V Pangwa (Chairperson) - appointment 01 November 2011 Mr. S Mkebe (Member) - appointment 01 November 2011 Ms. E Ameyaw - Gyarko (Member) - appointment 01 November 2011 Ms. W Dukuza (Member) - appointment 03 March 2014 Mr. H Marsberg (Member) - appointment 03 March 2014 Prof. TM Jordan (Member) - appointment 03 March 2014
Legislation Governing the Municipality	The Constitution of the Republic of South Africa, 1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005)

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Statement of Financial Position as at 30 June 2015

Figures in Rand

	Note(s)	2015	2014 Restated
Assets			
Current Assets			
Cash and cash equivalents	5	2,200,541,208	2,164,432,912
Inventories	6	44,878,411	50,597,990
Receivables from exchange transactions	7	320,652,236	375,933,168
Receivables from non-exchange transactions	8	374,152,283	201,436,468
VAT receivable	9	83,018,326	65,568,270
Current portion of operating leases	10	2,573,198	2,157,778
Current portion of long-term receivables	11	17,552	15,920
		3,025,833,214	2,860,142,506
Non-Current Assets			
Non-current portion of operating leases	10	66,444,415	64,286,181
Long-term receivables	11	9,440	26,992
Intangible assets	12	98,373,784	98,875,352
Investment property	13	328,302,103	333,211,336
Heritage assets	14	49,632,925	49,632,925
Property, plant and equipment	15	11,986,967,229	11,828,576,079
Investments in associate	16	81,908,295	59,548,855
Deferred tax	65	-	275
		12,611,638,191	12,434,157,995
Total Assets		15,637,471,405	15,294,300,501
Liabilities			
Current Liabilities			
Borrowings	17	46,097,194	54,633,001
Consumer deposits	18	48,504,722	44,837,812
Current tax payable	69	265,227	247,956
Finance lease obligation	19	2,738,106	2,783,463
Provisions	20	166,234,394	126,385,663
Payables from exchange transactions	21	535,207,489	641,525,590
VAT payable	67	172,477	141,519
Post-retirement medical obligation	23	15,665,595	14,779,624
Unspent conditional grants and receipts	22	205,714,609	213,717,743
		1,020,599,813	1,099,052,371
Non-Current Liabilities			
Borrowings	17	496,476,706	542,573,901
Finance lease obligation	19	767,176	3,425,027
Provisions	20	10,433,259	57,755,878
Post-retirement medical obligation	23	487,757,326	399,295,095
Other financial liability	66	100,000	100,000
		995,534,467	1,003,149,901
Total Liabilities		2,016,134,280	2,102,202,272
Net Assets		13,621,337,129	13,192,098,231
Reserves:			
Revaluation reserve	24	4,236,662,877	4,185,854,579
Accumulated surplus		9,384,674,252	9,006,243,652
Total Net Assets		13,621,337,129	13,192,098,231

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* See Note 2 & 48

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

Statement of Financial Performance

Figures in Rand	Note(s)	2015	2014 Restated
Revenue			
Revenue from exchange transactions			
Service charges	29	2,424,752,656	2,198,959,742
Rental of facilities and equipment	27	17,430,173	15,017,944
Licences and permits	27	14,034,279	14,160,878
Other revenue	27&31	221,465,547	243,576,732
Interest received	27&36	159,221,294	123,654,168
Total revenue from exchange transactions		2,836,903,949	2,595,369,464
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	794,518,845	672,956,899
Transfer revenue			
Government grants & subsidies	27&30	1,563,755,083	1,546,689,231
Fines	27	5,499,648	7,571,936
Public contributions and donations - PPE	27	3,410,514	-
Fuel levy	27	361,639,000	343,412,000
Total revenue from non-exchange transactions		2,728,823,090	2,570,630,066
Total revenue	27	5,565,727,039	5,165,999,530
Expenditure			
Impairments	15	(504,750)	(16,867,247)
Loss on disposal of assets	15	(30,408,389)	(11,042,335)
General Expenses	32	(971,872,848)	(933,654,838)
Employee related costs	33	(1,192,330,837)	(1,134,596,421)
Remuneration of councillors	34	(48,347,387)	(45,261,268)
Debt impairment	35	(365,110,172)	(241,010,582)
Depreciation and amortisation	38	(729,375,005)	(629,731,263)
Finance costs	39	(60,674,266)	(65,776,579)
Contracted services	41	(14,606,853)	(9,742,994)
Grants and subsidies paid	42	(234,174,659)	(144,963,740)
Bulk purchases	43	(1,213,641,773)	(1,110,464,178)
Repairs and maintenance	63	(284,054,233)	(285,681,086)
Total expenditure		(5,145,101,172)	(4,628,792,531)
Revaluation realised		(66,573,130)	38,024,299
Fair value adjustments	13	(4,909,235)	29,081,150
Share of surplus of associate accounted for under the equity method	16	22,359,440	54,222,847
		(49,122,925)	121,328,296
Surplus before taxation		371,502,942	658,535,295
Taxation	68	17,546	120,935
Surplus for the year	62	371,485,396	658,414,360

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Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

Statement of Changes in Net Assets

Figures in Rand		Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported		2,415,539,829	8,393,971,581	10,809,511,410
Adjustments:				
Prior year adjustments	24&48	-	84,831,903	84,831,903
Opening balance as previously reported		2,415,539,829	8,478,803,484	10,894,343,313
Change in net assets:				
Surplus for the year	48	-	658,414,360	658,414,360
Take on PPE donated	15	-	1,816	1,816
Take on PPE donated	15	-	19,240	19,240
Take on Movable Assets	15	-	3,320,186	3,320,186
Take on Intangible Assets	12	-	6,139,502	6,139,502
Take on Motor Vehicles	15	-	5,657,274	5,657,274
Adjustment to Recreational Facilities	15	-	(106,657)	(106,657)
Take on Community Facilities	15	-	82,727	82,727
Revaluation reserve realised	24	(12,036,679)	-	(12,036,679)
Take on leases	24	-	115,363	115,363
PPE revaluation	15	1,782,351,433	-	1,782,351,433
Infrastructure adjustment	24	-	(146,203,643)	(146,203,643)
Total changes		1,770,314,754	527,440,168	2,297,754,922
Restated Balance at 01 July 2014		4,185,854,583	9,006,243,652	13,192,098,235
Changes in net assets:				
Surplus for the year	62	-	371,485,396	371,485,396
Aquarium animals adjustment	15	-	40,181	40,181
Zoo animals adjustment	15	-	328,985	328,985
Take on Movable assets	12	-	6,206,798	6,206,798
Take on New Jersey Barricades	15	-	369,240	369,240
Land revaluation	24	60,129,906	-	60,129,906
Revaluation reserve realised on derecognition	24	(9,321,617)	-	(9,321,617)
Total changes		50,808,289	378,430,600	429,238,889
Balance at 30 June 2015		4,236,662,872	9,384,674,252	13,621,337,124
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* See Note 2 & 48

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

Cash Flow Statement

Figures in Rand	Note(s)	2015	2014 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services	61	3,304,048,115	3,319,851,069
Government grants & subsidies	61	1,563,755,083	1,546,689,231
Interest received	36	159,221,290	123,654,168
		<u>5,027,024,488</u>	<u>4,990,194,468</u>
Payments			
Employee costs & Councillors remuneration	33&34	(1,240,678,224)	(1,179,857,689)
Suppliers	61	(2,712,224,780)	(2,786,343,944)
Finance costs	39	(60,674,266)	(65,776,579)
Taxes on surpluses	69	-	(481,305)
		<u>(4,013,577,270)</u>	<u>(4,032,459,517)</u>
Net cash flows from operating activities	44	<u>1,013,447,218</u>	<u>957,734,951</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	15	(930,050,010)	(565,083,025)
Proceeds from sale of property, plant and equipment	15	6,253,524	765,772
Purchase of intangible assets	12	-	(21,361,607)
Proceeds from sale of other intangible assets	12	110,944	-
Purchase of heritage assets	14	-	(2,554,604)
Proceeds from sale of heritage assets	14	-	462,948
Net movement on long-term receivables	11	15,920	14,441
Net movement on non-current investments		-	892,235
Net cash flows from investing activities		<u>(923,669,626)</u>	<u>(586,863,844)</u>
Cash flows from financing activities			
Net movement on borrowings	17	(54,633,002)	(49,970,262)
Net movement on consumer deposits	18	3,666,911	(681,453)
Net movement on finance leases	19	(2,703,208)	898,723
Net cash flows from financing activities		<u>(53,669,299)</u>	<u>(49,752,992)</u>
Net increase in cash and cash equivalents		36,108,293	321,118,115
Cash and cash equivalents at the beginning of the year		2,164,432,912	1,843,314,797
Cash and cash equivalents at the end of the year	5	<u>2,200,541,205</u>	<u>2,164,432,912</u>

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* See Note 2 & 48

BUFFALO CITY METROPOLITAN ECONOMIC ENTITY

Audited Consolidated Annual Financial Statements for the year ended 30 June 2015

Statement of Comparison of Budget and Actual Amounts

Figures in Rand	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2015											
Financial Performance											
Property rates	797,179,911	16,118,391	813,298,302	-	-	813,298,302	794,518,845		(18,779,457)	98 %	100 %
Service charges	2,420,087,636	(22,643,575)	2,397,444,061	-	-	2,397,444,061	2,424,752,656		27,308,595	101 %	100 %
Investment revenue	77,490,885	-	77,490,885	-	-	77,490,885	159,221,294		81,730,409	205 %	205 %
Transfers recognised - operational	825,736,342	103,564,338	929,300,680	-	-	929,300,680	948,262,810		18,962,130	102 %	115 %
Other own revenue	638,051,145	16,172,573	654,223,718	-	-	654,223,718	623,479,161		(30,744,557)	95 %	98 %
Total revenue (excluding capital transfers and contributions)	4,758,545,919	113,211,727	4,871,757,646	-	-	4,871,757,646	4,950,234,766		78,477,120	102 %	104 %
Employee costs	(1,237,215,012)	(3,909,992)	(1,241,125,004)	-	-	(1,241,125,004)	(1,192,330,837)		48,794,167	96 %	96 %
Remuneration of councillors	(52,254,296)	-	(52,254,296)	-	-	(52,254,296)	(48,347,387)		3,906,909	93 %	93 %
Debt impairment	(203,074,220)	15,999,999	(187,074,221)	-	-	(187,074,221)	(365,110,172)		(178,035,951)	195 %	180 %
Depreciation and asset impairment	(710,000,000)	5	(709,999,995)	-	-	(709,999,995)	(729,879,755)		(19,879,760)	103 %	103 %
Finance charges	(59,248,068)	-	(59,248,068)	-	-	(59,248,068)	(60,674,266)		(1,426,198)	102 %	102 %
Materials and bulk purchases	(1,201,856,097)	(12,928,320)	(1,214,784,417)	-	-	(1,214,784,417)	(1,213,641,773)		1,142,644	100 %	101 %
Transfers and grants	(204,012,957)	8,374,999	(195,637,958)	-	-	(195,637,958)	(234,174,659)		(38,536,701)	120 %	115 %
Other expenditure	(1,079,245,061)	(151,060,217)	(1,230,305,278)	-	-	(1,230,305,278)	(1,372,424,688)		(142,119,410)	112 %	127 %
Total expenditure	(4,746,905,711)	(143,523,526)	(4,890,429,237)	-	-	(4,890,429,237)	(5,216,583,537)		(326,154,300)	107 %	110 %
Surplus/(Deficit)	11,640,208	(30,311,799)	(18,671,591)	-	-	(18,671,591)	(266,348,771)		(247,677,180)	1,426 %	(2,288)%

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Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	700,781,726	19,618,128	720,399,854	-	-	720,399,854	615,492,273		(104,907,581)	85 %	88 %
Contributions recognised - capital and contributed assets	-	458,860	458,860	-	-	458,860	-		(458,860)	-	-
Surplus (Deficit) after capital transfers and contributions	712,421,934	(10,234,811)	702,187,123	-	-	702,187,123	349,143,502		(353,043,621)	50 %	49 %
Share of surplus (deficit) of associate	-	-	-	-	-	-	22,359,440		22,359,440		
Taxation	-	-	-	-	-	-	17,546		17,546	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	712,421,934	(10,234,811)	702,187,123	-	-	702,187,123	371,520,488		(330,666,635)	53 %	52 %
Capital expenditure and funds sources											
Total capital expenditure	942,007,423	226,737,581	1,168,745,004	-	-	1,168,745,004	930,050,010		(238,694,994)	80 %	99 %
Sources of capital funds											
Transfers recognised - capital	700,781,726	19,618,128	720,399,854	-	-	720,399,854	615,492,273		(104,907,581)	85 %	88 %
Public contributions and donations	-	458,860	458,860	-	-	458,860	-		(458,860)	-	-
Internally generated funds	241,225,697	206,660,593	447,886,290	-	-	447,886,290	314,557,737		(133,328,553)	70 %	130 %
Total sources of capital funds	942,007,423	226,737,581	1,168,745,004	-	-	1,168,745,004	930,050,010		(238,694,994)	80 %	99 %

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Statement of Comparison of Budget and Actual Amounts

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and budget s31 of the MFMA)	Final adjustments (i.t.o. of the MFMA)	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	1,439,865,660	(26,964,336)	1,412,901,324	-	-	1,412,901,324	1,013,447,218		(399,454,106)	72 %	70 %
Net cash from (used) investing	(942,007,423)	(226,737,581)	(1,168,745,004)	-	-	(1,168,745,004)	(923,669,626)		245,075,378	79 %	98 %
Net cash from (used) financing	(54,633,002)	-	(54,633,002)	-	-	(54,633,002)	(53,669,299)		963,703	98 %	98 %
Net increase/(decrease) in cash and cash equivalents	443,225,235	(253,701,917)	189,523,318	-	-	189,523,318	36,108,293		(153,415,025)	19 %	8 %
Cash and cash equivalents at the beginning of the year	870,043,894	(870,043,894)	-	-	-	-	- 2,164,432,912		2,164,432,912	-	249 %
Cash and cash equivalents at year end	1,313,269,129	(1,123,745,811)	189,523,318	-	-	189,523,318	2,200,541,205		2,011,017,887	1,161 %	168 %

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